

Strategy and business model

Vision and aspiration

Progress in BBVA's transformation journey

Our Values

Materiality

Responsible banking model



Strategy and business model

BBVA made significant progress in its **transformation** process during 2018, based on its **Purpose**, the six **Strategic**

Priorities, and its **Values**, all of which are fundamental pillars of the Organization’s overall strategy.

Vision and aspiration

BBVA is a transformation process that is necessary for adapting to the new environment in the financial industry, characterized by trends that confirm the Group’s strategic **vision**, that is, a **reconfiguration of the entire financial services industry** is taking place. These trends are the following:

- A complex **macroeconomic environment**, characterized by strong regulatory pressure, low interest rates, high currency volatility, and geopolitical risks.
- A highly regulated banking industry, that is, traditional banking subject to a large number of legal **regulations**, both globally and locally.
- A **shift** in the needs and expectations of **customers** who demand higher value-added services that enable them to achieve their objectives, with a simple, transparent and immediate relationship model similar to

the one they already enjoy with a number of other highly digitized industries.

- Certain **data** that is evolving into a strategic asset. Given the large amount of data stored within organizations, the ability to interpret and make value proposals to customers is considered to be critical, provided there is customer **consent** under all circumstances.
- Certain technological giants, with business models based on data that create **ecosystems** where the lines between different types of businesses are getting blurred.
- Greater competition as a result of the arrival of **new players** who focus on the most profitable aspects of the value chain.

In this context, the main objective of the Group’s transformation strategy its **aspiration** is to **strengthen the relationship with its customers**.

New value proposition

Based on our customers’ real needs



Helping our customers
to make the best financial decisions offering relevant advice



Providing the best solutions
that generate trust for our customers, being clear, transparent and based on integrity



Through an easy and convenient experience
DIY through digital channels or human interaction

Our aspiration is to strengthen the relationship with the customer

With the aim of promoting the new value proposition of the Group within the framework of the transformation strategy, we want to offer customers:

- advice based on data through the development of solutions that provide them with added value, helping them to achieve their objectives, the best decision-making and providing peace of mind while strengthening the relationship of trust with BBVA; and
- products and services for customers and non-customers, 100% digital, simple and fast, through fully automated processes, and from our own and third-party channels.

For this we are supporting ourselves in:

- advance firmly in the transformation towards a truly data-driven company in which all decisions are made based on data and in which the creation of our product and service offerings is fed with data-based intelligence;
- in a software development platform that enables a global ecosystem of developers who work collaboratively to build products that customers request, increasingly rapidly and incorporating the latest technologies; and
- an agile organization, in which the teams are directly responsible for what they do, build everything from the customer's feedback and are focused on delivering the solutions that best meet the current and future needs of the clients.

Progress in BBVA's transformation journey

BBVA advanced in fulfillment of its **Purpose** in 2018: To bring the age of opportunity to everyone, which is reflected in the **tagline**: Creating Opportunities. We want to help our customers make better financial decisions and attain their life goals; we want to be more than a bank, we want to be an engine of opportunities and have a positive impact on peoples' lives and companies' businesses.

In this respect, important steps were taken in the development of the six **Strategic Priorities** of the Group throughout the year in order to continue its advances in the transformation process. These advances were reflected in the results of key performance indicators (KPIs).

OUR PURPOSE

“ To bring the age of opportunity to everyone ”

SIX STRATEGIC PRIORITIES

- New standard in customer experience
- Digital sales
- New business models
- Optimize capital allocation
- Unrivaled efficiency
- A first class workforce

Strategic priorities

1. A new standard in customer experience

BBVA Group's main focus is based on providing a new standard in customer experience that stands out for its simplicity, transparency and swiftness, further empowering its customers while offering them personalized advice.

BBVA's business model is customer-oriented, with the goal of being a leader in customer satisfaction across its global footprint. In order to learn more about the degree of customer recommendation, and, in turn, their degree of satisfaction, the Group uses the **Net Promoter Score (NPS)** methodology, which recognizes BBVA as one of the most recommendable banking entities in every country where it operates.

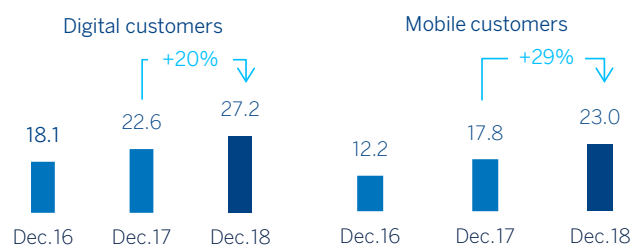
Likewise, progress in customer satisfaction is reflected in the positive performance of strategic indicators such as the **target customers** (segment of customers which the Group wishes to grow and retain), as well as its corresponding **client attrition rate**. The digital customers base are more satisfied and this translate into digital clients attrition rate reduction (-47% vs non digital clients). In short, BBVA is making progress in its strategy, and succeeding in attracting a greater number of customers, who are also more satisfied and more loyal.

2. Digital sales

BBVA's relationship model is evolving to adapt to the growing multi-channel customer profile, which is why it is essential to foster digitalization. For this purpose, it is developing an important digital offering including products and services that let customers use the most convenient channel for them.

The number of **digital and mobile customers** of the Group grew considerably in 2018, reaching the tipping point of 50% in digital customers at the Group level and in six countries where BBVA operates: Spain, The United States, Turkey, Argentina, Colombia and Venezuela.

Digital and mobile customers (BBVA Group. Million)



Furthermore, a significant boost to **digital channel sales** is being made, which is having a very positive evolution across the global footprint. In 2018, 41% of sales were made through the Group’s digital channels compared to 28% in the previous year.

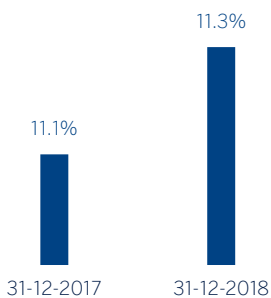
3. New business models

Throughout 2018, BBVA continued to consolidate itself as one of the leading banks in terms of digital transformation and activity in the entrepreneurship ecosystem. The Group is actively participating in the disruption of the financial industry in order to incorporate key findings into the Bank’s value proposition, both through the search for new digital business models as well as the leveraging of the FinTech ecosystem. This activity is being implemented in five key levers: i) exploring (Open Talent y Open Summit); ii) constructing (Upturn and Azlo); iii) partnering (Alipay); iv) acquiring and investing (Solaris and the increase of participation in Atom); and v) venture capital (Sinovation and Propel).

4. Optimize capital allocation

The objective of this priority is to improve the profitability and sustainability of the business while simplifying and focusing it on the most relevant activities. Throughout 2018, efforts continued to promote the correct allocation of capital and this is allowing the Group to continue improving in terms of solvency. Thus, the fully-loaded CET1 capital ratio stood at 11,3% at the end of the year, up 26 basis points on the close of 2017.

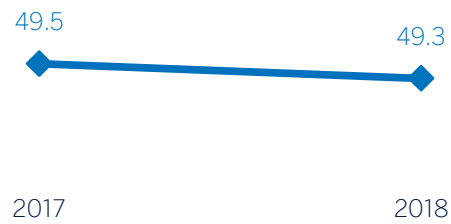
CET1 fully-loaded (Percentage)



5. Unrivaled efficiency

In an environment of lower profitability for the financial industry, efficiency has become an essential priority in BBVA's transformation plan. This priority is based on building a new organizational model that is as agile, simple and automated as possible. In 2018, the Group’s efficiency ratio stood at 49,3%, which is lower than the previous year (49,5%).

Efficiency ratio (Percentage)



6. A first class workforce

BBVA Group’s most important asset is its people; therefore, **a first class workforce** is one of the six Strategic Priorities, which entails attracting, selecting, training, developing and retaining top-class talent.

BBVA Group has developed new people management models and new ways of working which have enabled the Bank to keep transforming its operational model, but have also promoted cultural transformation and have favored the ability to become a purpose-driven company, or, in other words, a company where staff guide their actions according to the Values, and are genuinely inspired and motivated by the same Purpose.

Our Values

BBVA is engaged in an open process to identify the Group’s Values, which took on board the opinion of employees from across the global footprint and units of the Group. These Values define our identity and are the pillars for making our Purpose a reality:

1. Customer comes first

BBVA has always been customer-focused, but the customer now comes first before everything else. The Bank aspires to take a holistic customer vision, not just financial. This means working in a way which is empathetic, agile and with integrity, among other things.

- **We are empathetic:** we take the customer’s viewpoint into account from the outset, putting ourselves in their shoes to better understand their needs.
- **We have integrity:** everything we do is legal, publishable and morally acceptable to society. We always put customer interests’ first.
- **We meet their needs:** We are swift, agile and responsive in resolving the problems and needs of our customers, overcoming any difficulties we encounter.

2. We think big

It is not about innovating for its own sake but instead to have a significant impact on the lives of people, enhancing their opportunities. BBVA Group is ambitious, constantly seeking to improve, not settling for doing things reasonably well, but

instead seeking excellence as standard.

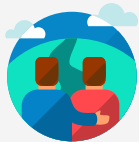
- **We are ambitious:** we set ourselves ambitious and aspirational challenges to have a real impact on people’s lives.
- **We break the mold:** we question everything we do to discover new ways of doing things, innovating and testing new ideas which enables us to learn.
- **We amaze our customers:** we seek excellence in everything we do in order to amaze our customers, creating unique experiences and solutions which exceed their expectations.

3. We are one team

People are what matters most to the Group. All employees are owners and share responsibility in this endeavor. We tear down silos and trust in others as we do ourselves. We are BBVA.

- **I am committed:** I am committed to my role and my objectives and I feel empowered and fully responsible for delivering them, working with passion and enthusiasm.
- **I trust others:** I trust others from the outset and work generously, collaborating and breaking down silos between areas and hierarchical barriers.
- **I am BBVA:** I feel ownership of BBVA. The Bank’s objectives are my own and I do everything in my power to achieve them and make our Purpose a reality.

Our Values



Customer **comes first**

- 👂 We are empathetic
- 📍 We have integrity
- 👍 We meet their needs



We think **big**

- 🚩 We are ambitious
- 🔄 We break the mold
- 👏 We amaze our customers



We are **one team**

- ❤️ I am committed
- 📧 I trust others
- 🏠 I am BBVA

The Values are reflected in the daily life of all BBVA Group employees, influencing every decision.

The implementation and adoption of these Values is supported by the entire Organization, including senior management, launching local and global initiatives which ensure these Values are adopted uniformly throughout the Group. Thus, in 2018 the core values were present in the various **people management** levers (recruitment, training, development, etc.), as well as in agile and budget management processes. Within the people management levers, a new people assessment model was launched, in which the cultural skills of 97% of employees were evaluated. In the global report it has been verified that the best rated value (4.66 out of 5) and, therefore, the most focused-on principle for the Entity is the concept of Customer comes first.

In addition, in July 2018, BBVA held its first global **Values Day**, an event that took place across its global footprint, with the objective that employees reflect on the implications of values and propose actions for their effective implementation. The main activity at this global event was workshops organized to identify improvement projects and determine opportunities for implementing its values in the Group. In these workshops:

- more than 23,000 employees (nearly 20% of the total) from different countries and areas participated;
- they took place both at corporate headquarters around the world, as well as through activities in the branch network;

- Mexico was the country with the highest participation in the workshops, with a total of 11,475 participants (31%);
- Customer comes first value was the most cited value at a global level, 47% of the participants focused on this value, and one in four employees focused on We meet their needs behavior;
- the online and individual version of the workshop that was made available to all employees through an ad-hoc web app for this event had participation levels of 63%.

In short, Values Day helped to create listening mechanisms and transform employees' feedback into data through machine-learning algorithms; thus becoming an event specific to a data-driven organization.

In addition, in 2018 BBVA shared Our Values with other stakeholders: with customers through the actions carried out in branches during the Values Day; with shareholders in the framework of the General Shareholders' Meeting; and with society in general, with the publication of articles specialized in media of different countries. More than 500 **local initiatives** have also been launched to consolidate the relationship with customers, promote the transforming vocation of teams and collaborative work schemes and encourage the feeling of belonging to BBVA.

Materiality

BBVA performs a materiality analysis in order to become aware of and prioritize the most relevant issues, both for its key stakeholders and for its overall strategy. In other words, it is an analysis that contributes to the development of the business strategy in line with what is expected of the Group, as well as a way to determine what information should be reported.

In 2018, in addition to the data-based analysis already in use in recent years, there has been participation from the Strategy & M&A area, and the collaboration of different stakeholder teams (Client Solutions, Talent & Culture, Investor Relations, Supervisory Relations, Legal Services, and Responsible Business). This has improved the process of identifying relevant issues and led to a deeper debate on the relationship between the priorities of the stakeholders and business strategies.

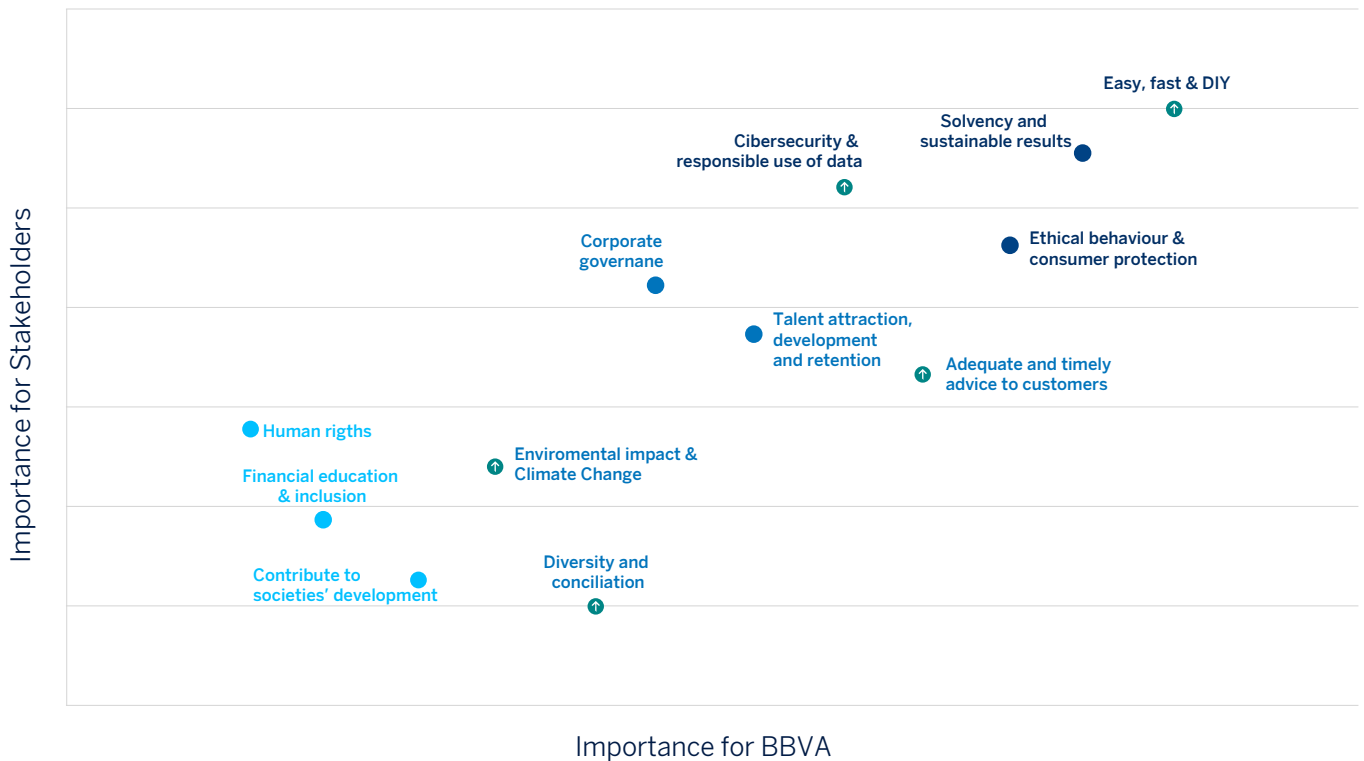
The materiality **analysis** phases were as follows:

1. Identification of relevant issues for each of the stakeholders based on interviews with the teams they

interact with. These, in turn, relied on information that was obtained from the usual listening and dialog tools.

2. Agregation into a single list, based on all issues identified for each of the stakeholders. BBVA made a list of twelve issues.
3. Prioritization of issues according to their importance to the stakeholders. BBVA carried out a series of surveys and interviews with various stakeholders, as well as an analysis of social media and networks. In order to complete the prioritization, an analysis on trends and sectoral data was made, based on data from Datamaran, from which the issues most relevant to their peers were obtained.
4. Subjects were prioritized according to their impact on BBVA's strategy. The strategy team assessed how each issue impacts the six Strategic Priorities. The most relevant issues for BBVA are those that help it achieve its strategy to a greater extent.

The result of this analysis is contained in the Group's **materiality matrix**.



⬆ Issue whose importance is expected to increase, both for stakeholders and BBVA

Therefore, the five **most relevant issues** for BBVA's business strategy and its stakeholders are (in order of joint importance):

- **Easy, fast and DIY (do it yourself):** stakeholders expect to operate in an agile and simple way with BBVA, at any time and from anywhere, leveraging in the use of new technologies. These new technologies will allow greater efficiency in the operation, generating value for the shareholders.
- **Solvency and sustainable results:** stakeholders expect BBVA to be a robust, solvent and sustainable bank, thus contributing to the stability of the system. They demand a business model that responds to changes in the context: disruptive technologies, new competitors, geopolitical issues, etc.
- **Ethical behavior and consumer protection:** stakeholders expect BBVA to behave in a comprehensive manner and

to protect clients or depositors by acting transparently, offering products that are appropriate to their risk profile and managing the ethical challenges presented by certain new technologies with integrity.

- **Adequate and timely advice to customers:** stakeholders expect BBVA to provide appropriate solutions to clients' personal needs and circumstances. It is also expected that the Bank will help them in managing their finances, proactively and with proper handling.
- **Cybersecurity and responsible use of data:** stakeholders expect their data to be secure at BBVA and to be used only for agreed purposes, always complying with current law. This is critical to maintaining trust.

Information on the Group's performance in these relevant matters in 2018 is reflected in the different chapters of this annual report BBVA in 2018.

Responsible banking model

At BBVA we have a differential banking **model** that we refer to as responsible banking, based on seeking out a return adjusted to principles, strict legal compliance, best practices and the creation of long-term value for all stakeholders. It is reflected in the **Bank's Corporate Social Responsibility or Responsible Banking Policy**. The Policy's mission is to manage the responsibility for the Bank's impact on people and society, which is key to the delivery of BBVA's Purpose.

All the Group's business and support areas integrate this policy into their operational models. The Responsible Business Unit coordinates the implementation and basically operates as a second line for defining standards and offering support.

The responsible banking model is supervised by the Board of Directors and its committees, as well as by the Bank's senior management.

The four **pillars** of BBVA's responsible banking model are as follows:

- Balanced relations with its customers, based on transparency, clarity and responsibility.
- Sustainable finance to combat climate change, respect human rights and achieve the UN Sustainable Development Goals (SDGs).
- Responsible practices with employees, suppliers and other stakeholders.
- Community investment to promote social change and create opportunities for all.

In **2018**, BBVA approved its climate change and sustainable development strategy to contribute to the achievement of the Sustainable Development Goals (SDGs) and aligned with the Paris Agreement. This strategy is described in the Sustainable finance chapter.